

AGENDA

SPECIAL MEETING BOARD OF MAYOR AND ALDERMEN (RE: RETIREMENT SYSTEM LEGISLATION)

March 8, 2005

7:30 PM
Aldermanic Chambers
City Hall (3rd Floor)

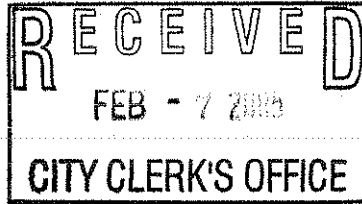
1. Mayor Baines calls the meeting to order.
2. Mayor Baines calls for the Pledge of Allegiance.

A moment of silent prayer is observed.
3. The Clerk calls the roll.

TABLED ITEM

A motion is in order to remove the following items from the table for discussion.

4. Communication from the Executive Director of the Manchester Employee's Contributory Retirement System updating the Board on the status of bills pending before the State Legislature.
(Tabled 02/15/2005)
5. Mayor Baines advises that this being a special meeting of the Board, no further business can be presented and a motion to adjourn would be in order.



February 15, 2005.
In Board of Mayor and Aldermen.

On motion of Alderman Lopez, duly
seconded by Alderman Porter, it was
voted to table.


City Clerk

1045 ELM ST. • SUITE 403
MANCHESTER, NH 03101-1824
PHONE (603) 624-6506
FAX (603) 624-6342

Honorable Board of Mayor & Aldermen
C/O Office of the City Clerk
One City Hall Plaza
Manchester, NH 03101

February 4, 2005

Honorable Members:

On November 30, 2004, I wrote to notify you of the existence of a pair of Legislative Services Requests which had been introduced for the 2005 session of the New Hampshire Legislature. Appearing subsequently before you at your meeting of December 7, 2004 and in response to a particular question put forth by Alderman Shea with respect to LSR 0379 regarding the creation of a health insurance subsidy for retired members of our plan, I promised to personally ensure that you would receive cost estimates relative to that legislation as soon as I received them from the actuary.

I am writing at this time to inform you of the status of both bills and to provide the promised cost information on the retiree health insurance proposal. Our housekeeping measure which was initially identified as LSR 0378 has been assigned House Bill number 499. The health insurance subsidy proposal which was originally designated as LSR 0379 has been assigned House Bill number 521. Copies of the text of both bills have been provided in the interest of full disclosure. Also attached is a copy of a Supplemental Actuarial Valuation generated by Gabriel, Roeder, Smith & Company, the retirement system's actuary, that estimates the cost associated with the HB-521.

In the interest of saving time and to prevent any misinterpretation of the estimate from the actuary, please allow me to summarize what can be discerned from that statement. The cost associated with HB-521, assuming that everyone who possibly qualifies to participate elects to do so, would result in the creation of an unfunded liability of \$17,015,508 which would be paid off over a thirty year period. The first year cost toward that \$17 million would be \$1,205,516 and that amount would be directly indexed to salary levels. Since we assume salaries to rise by 4% per year on average each year, the annual contribution cost in dollars would likewise be expected to rise by that same 4 percent.

**CITY OF
MANCHESTER
EMPLOYEES'
CONTRIBUTORY
RETIREMENT
SYSTEM**

1045 ELM ST. • SUITE 403
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Let me also take this opportunity to make it clear that the Manchester Employees' Contributory Retirement System takes no position on this legislation either in favor or in opposition since it is not our role to advocate. Our role is to facilitate the determination and distribution of information needed in the decision making process with respect to plan benefits. As you are no doubt aware, the ultimate decision on whether proposed plan changes such as this become a reality rests with the voters of Manchester as the final step in this process is a referendum question.

I will be happy to make myself available should anyone have questions or concerns regarding this matter.



Gerard E. Fleury – Executive Director
Manchester Employees' Contributory Retirement System

(11 page attachment)

**CITY OF MANCHESTER EMPLOYEES
CONTRIBUTORY RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2003**

SUBMITTED TO: Mr. Gerard Fleury, Executive Director
DATE: February 3, 2005
SUBMITTED BY: Kenneth G. Alberts and Mark Buis, A.S.A., E.A., M.A.A.A.
Gabriel, Roeder, Smith & Company

BACKGROUND

The results of a supplemental actuarial valuation requested by the City of Manchester Employees' Contributory Retirement System to measure the financial effect of providing the following benefit change are presented in this report:

- Provide a post-retirement health insurance subsidy to members.

VALUATION DATA, METHODS AND ASSUMPTIONS

The date of this valuation was December 31, 2003. The valuation was based on actuarial data submitted as of December 31, 2003 and actuarial methods and assumptions adopted by the Board in December, 2004 pursuant to the Experience Study dated November 12, 2004. In particular:

- The assumed rate of interest was 7.5%.
- The assumed rate of payroll growth was 4.0%.
- Changes in accrued liability were amortized over 30 years, the current period used to finance plan liabilities in the actuarial valuation.
- The funding method was entry-age normal cost.

A brief summary of the data used in this valuation is presented below.

<u>Member Status</u>	<u>Number</u>	<u>Payroll</u>	<u>Average in Years</u>	
			<u>Age</u>	<u>Service</u>
Active	1,316	\$ 41,998,187	45.9 yrs.	9.7 yrs.
Terminated Vested	68	N/A	50.6 yrs.	N/A
Retired*	469	N/A	62.3 yrs.	N/A

**Excludes Beneficiaries*

CITY OF MANCHESTER EMPLOYEES'
CONTRIBUTORY RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2003

PRESENT PROVISION:

Monthly Health Insurance Subsidy: Currently, there are no monthly health insurance subsidies paid to members, by the System.

PROPOSED PROVISION:

Monthly Health Insurance Subsidy:

Eligibility: Current and future retired members (excluding beneficiaries) who are in receipt of an annuity benefit. Spouses, dependents and/or beneficiaries are not eligible for any subsidy.

Subsidy Amount: The full amount of the monthly health insurance subsidy on the effective date shall be \$200 and shall increase annually by 4%, compounded annually, beginning the year after the effective date. The amount payable to an eligible member will be a percentage of the full amount based on the member's service at retirement and status on the effective date, as illustrated below:

Service at Retirement	% of Full Subsidy Payable	
	Active on or after the Effective Date	Terminated Vested or Retired on the Effective Date
Less than 10 years	25.0%	12.5%
10 years or more, but less than 15 years	50.0%	25.0%
15 years or more, but less than 20 years	75.0%	37.5%
20 years or more	100.0%	50.0%

Member Contributions: 1.25% of pay in addition to current pension contributions. Contributions for the health subsidy are non-refundable.

Actuarial Statement

The effect of the proposed change on computed employer-funded system costs is illustrated below:

Normal Cost	Increase in			
	Actuarial Accrued Liability		Employer Contribution Rate	
	\$'s	% to Amortize*	% of Covered Payroll	Estimated First Year \$'s
0.67%	\$17,015,508	2.09%	2.76%	\$1,205,516

*The increase in accrued liabilities shown above is amortized over 30 years, a commonly used period for financing liabilities arising from the adoption of new benefit provisions. The amortization period is a matter of Board policy. Since there are no assets in this program, all of the accrued liability is unfunded.

CITY OF MANCHESTER EMPLOYEES'
CONTRIBUTORY RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2003

Comments

- A 100% utilization rate was assumed for this proposal. If all affected members do not participate, costs will be lower than shown herein.
- Service for current terminated vested members was not immediately available. Liabilities for this group were estimated by assuming that the 68 members would, on average, receive 25% of the full subsidy.
- We understand that it is the sponsor's intention that the proposed health subsidy be funded using a 401(h) Sub-Trust. These trusts are subject to certain funding restrictions. Based on the current provisions of the Retirement System and the proposed plan as well as the funding status of the System, it appears that these restrictions will not initially affect the sponsor's ability to use a 401(h) sub-trust to completely fund the proposed benefits. However, this situation could change in the future and should be carefully monitored. Alternative vehicles, or combinations thereof, should be considered.
- The proposed program provides for benefit payments to start immediately upon the effective date. However, since there are no assets currently in the plan (in general, pension assets cannot be used to pay health benefits payable from a 401 (h) account) the plan will have cash flow problems from inception. Since the annual employer contributions are in excess of the annual benefits expected to be paid during the first few years, this may not be a problem, so long as monthly contributions are deposited before the monthly benefit payments are due to be paid. Even so, cash flow will need to be regularly monitored to ensure that the fund remains solvent until a sufficient asset balance can be created. This may result in temporary contributions in excess of the costs shown herein.
- The Governmental Accounting Standards Board (GASB) has issued statements 45 and 47 which dictate how the Retirement System and the Sponsoring Employer should report costs for post-employment benefits other than pensions (such as the proposed benefit). A study of cost implications under GASB 45 and 47 is beyond the scope of the work contained herein. This report estimates the long-term cost of the proposed benefit without regard to accounting issues under GASB.
- If users of this report have reason to believe that the assumptions and interpretations that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions are not described, or that conditions have changed since the calculations were made, contact the authors of this report prior to relying on the information in the report.

HB 499 - AS INTRODUCED

2005 SESSION

05-0378

10/03

HOUSE BILL **499**

AN ACT relative to participation in and administration of the Manchester employees' contributory retirement system.

SPONSORS: Rep. Baroody, Hills 13

COMMITTEE: Executive Departments and Administration

ANALYSIS

This bill makes various changes to the requirements for participation for members of the city of Manchester employees retirement system and the administration of benefits by the board.

Explanation: Matter added to current law appears in *bold italics*.

Matter removed from current law appears [~~in brackets and struckthrough~~].

Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

05-0378

10/03

STATE OF NEW HAMPSHIRE

In the Year of Our Lord Two Thousand Five

AN ACT relative to participation in and administration of the Manchester employees' contributory retirement system.

Be it Enacted by the Senate and House of Representatives in General Court convened:

1 Employees to Whom the Act Applies. Amend 1973, 218:7, I, as amended by 2002, 194:1, to read as follows:

I. All full-time and permanent part-time employees of the city, including elected and appointed officials of the city, shall participate in the retirement system and receive benefits as provided by the act. *For purposes of this act, employees of the Manchester school district, Manchester public library, and the Manchester contributory retirement system shall be city employees.* Participation in the retirement system shall be a condition of employment with the city. The following employees of the city shall not be eligible to participate in the retirement system:

- (a) Temporary employees;
- (b) Members of boards and commissions who are not part-time or full-time employees of the city;
- (c) Members of the fire and police departments who are eligible to participate in a state-administered retirement system; ~~and~~
- (d) Persons who are eligible to participate in the New Hampshire retirement system~~[-]~~;
and
- (e) Trustees of the Manchester contributory retirement system who are not otherwise eligible as a result of employment by the city.*

2 Service Credit and Service Buyback. Amend 1973, 218:10, I, as amended by 2002, 194:1, to read as follows:

I. Service rendered for the full normal working time in a period of 12 consecutive months shall entitle a member to one year of service credit. Time spent as a member of any of the various city boards, or in any other capacity rendering incidental employment to the city, shall not be counted as service for the purposes of this act. Absence from employment on account of active duty with the armed forces of the United States in time of emergency or war, or as directed by selective service or to meet selective service requirements, or as a member of the national guard, or organized reserves, to meet its requirements, shall be counted as continuous employment with the city, provided, that the employee returns directly to active employment with the city ~~[within 90 days]~~ after he or she becomes eligible for release from such active duty. Any such period of absence shall not be counted as service unless the employee completes a service buyback.

3 Retirement Benefit Calculation. Amend 1973, 218:12, V(a), as amended by 2002, 194:1, to read as follows:

- (a) One and 1/2 percent of the member's final average earnings multiplied by the number of years, including the fractions of years represented by full months, of service completed prior to January 1, 1999, *except that any service credit upgraded to the 2 percent rate*

pursuant to paragraph VI of this section shall be calculated in accordance with subparagraph (b); plus

4 Optional Retirement Benefit. Amend 1973, 218:12, VI, as amended by 2002, 194:1 and 2004, 159:1, to read as follows:

VI. *Prior to a member's termination of employment*, a member may elect, under rules of the board, to receive a retirement benefit of 2 percent of the member's average final earnings for all years of service or any portion thereof, provided that the member shall be responsible for payment of 50 percent of the ~~[actuarially determined cost of the]~~ benefit *based on methods and assumptions adopted by the board*. The retirement system shall be responsible for the payment of the remaining 50 percent of the ~~[actuarially determined cost of the benefit]~~ *retirement benefit based on methods and assumptions adopted by the board*.

5 Disability Retirement Benefit Calculation. Amend 1973, 218:15, II(a), as amended by 2002, 194:1 to read as follows:

(a) One and 1/2 percent of the member's final average earnings multiplied by the number of years, including the fractions of years represented by full months, of service completed prior to January 1, 1999, *except that any service credit upgraded to the 2 percent rate pursuant to section 12, paragraph VI shall be calculated in accordance with subparagraph (b); plus*

6 Disability Benefits; Medical Examination. Amend 1973, 218:15, IV, as amended by 2002, 194:1 to read as follows:

IV. ~~[At least once each year]~~ Following the retirement of a member with a disability retirement pension and prior to the member's normal retirement date, the retirement board may require such retiree to undergo a medical examination to be made by or under the direction of a physician or physicians designated by the retirement board. Should any disabled member refuse to submit to such medical examination ~~[in any such period of the member's disability retirement]~~, the disability retirement pension shall be discontinued by the retirement board until the withdrawal of the refusal. If the refusal continues for one year, all the member's rights in and to a disability retirement pension shall be revoked by the retirement board. If, upon such medical examination, the physician or physicians certify to the retirement board that the disabled member is physically and mentally able and capable of resuming employment ~~[with the city, the member shall be restored to city employment in either the same position previously held or a position comparable in duties, responsibilities and compensation and the member's disability retirement pension shall be terminated. If the member, after being declared physically and mentally capable of resuming employment refuses an offer of employment by the city in the member's previous position or a comparable position]~~ *in the capacity in which the member became disabled*, the member's disability benefit shall be terminated.

7 Adjustments. Amend 1973, 218:20, as amended by 2002, 194:1, to read as follows:

218:20 Adjustments in Benefits for Retirees to Maintain Financial Parity. In order to maintain the economic value of a member's retirement income on a parity with the value of the monthly payments at the time of retirement, and to offset the impact of inflation in reducing the real income of the member's retirement payment, the retirement board may, as deemed necessary, adjust the payments to retirees to maintain their incomes at an approximate level with their real incomes at the time of retirement, provided, however, that payments to retired members shall not be less than the payment to which they were initially entitled at the time of retirement; provided further that sufficient funds are available to fund any additional benefits either through earnings of the retirement fund or through such special appropriation by the city as may be approved by the board of mayor and aldermen. ***Any adjustment made to a member's retirement income by the retirement board pursuant to this section shall not apply to the additional retirement allowance or benefit purchased by the member pursuant to section 9, paragraph III.***

8 Retirement System Employees. Upon the effective date of this section, employees of the Manchester employees' contributory retirement system in service on the effective date, shall be eligible to purchase prior service credit for continuous time in the service of the Manchester employees contributory retirement system. The cost of such service shall be paid by the member based on methods and assumptions adopted by the board.

9 Effective Date. This act shall take effect 60 days after its passage.

HB 521 - AS INTRODUCED

2005 SESSION

05-0379

10/04

HOUSE BILL **521**

AN ACT relative to medical insurance coverage for members of the Manchester employees' contributory retirement system.

SPONSORS: Rep. Baroody, Hills 13

COMMITTEE: Executive Departments and Administration

ANALYSIS

This bill establishes a program for medical insurance coverage for members of the city of Manchester employees' retirement system. The provisions of the bill are subject to a referendum vote in the city of Manchester.

Explanation: Matter added to current law appears in *bold italics*.

Matter removed from current law appears [~~in brackets and struckthrough~~]

Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

05-0379

10/04

STATE OF NEW HAMPSHIRE

In the Year of Our Lord Two Thousand Five

AN ACT relative to medical insurance coverage for members of the Manchester employees' contributory retirement system.

Be it Enacted by the Senate and House of Representatives in General Court convened:

1 New Section; Manchester Retirement System; Medical Insurance Coverage. Amend 1973, 218, as amended by 2002, 194, by inserting after section 27 the following new section:

218:28 Medical Insurance Coverage.

I. The plan shall establish a subtrust pursuant to Internal Revenue Code Section 401(h) for the purposes of funding a flat rate subsidy to assist in the payment of group health insurance premiums for members. The retirement system shall enact such rules and regulations as the board may deem necessary to implement this section.

II. Member contributions toward this subsidy shall be funded by an increase in the member contribution rate established pursuant to section 218:9, I by 1.25 percent. Under no circumstances shall a member be entitled to a refund of contributions made to the Section 401(h) subtrust. Notwithstanding any other provisions of chapter 218 to the contrary, members shall not be entitled to a refund of contributions made to the Section 401(h) subtrust. The city shall fund the remaining cost of funding the 401(h) subtrust based on methods and assumptions determined by the board. Any contribution made by the city intended to fund the 401(h) subtrust shall be so designated. Any transfers of retirement system assets to the 401(h) subtrust shall be limited to excess assets as defined in Internal Revenue Code Section 420(e)(2). All such transfers must be made in accordance with Internal Revenue Code Section 420 and all applicable Treasury regulations.

III. The benefits provided by the 401(h) subtrust will be payable only to members who have retired in accordance with sections 218:12, 218:14, or 218:15. The amount payable by the retirement system on account of qualified members shall be paid over to the city, insurer, or health care administrator as may be determined by contractual arrangements between the city and such entities. Benefits provided by the 401(h) subtrust shall cease at the death of the member.

IV. Eligibility shall be limited to single person coverage or single person Medicare supplement for the member to whom the benefit accrued and shall not apply to beneficiaries as defined by this act.

V. The value of the subsidy provided to a member shall depend upon the years of service credit earned by the member prior to retirement and the date on which the member retires. The initial base amount available to members retiring on or before the effective date of this section shall be \$1,200 per year. The initial base amount available to members who have terminated employment before the effective date of this section and retire after the effective date of this section shall be \$1,200 per year. The initial base amount available to members in the employment of the city at the effective date of this section and who contributed toward this benefit and retire after the effective date of this section shall be \$2,400 per year. The base amounts shall increase by 4 percent on January 1 of each year beginning on January 1, 2007. A member who retires with less than 10 years of service credit shall receive 25 percent of the initial base amount as has been

adjusted annually. A member who retires with at least 10 years of service credit but less than 15 years of service credit shall receive 50 percent of the initial base amount as has been adjusted annually. A member who retires with at least 15 years of service but less than 20 years of service credit shall receive 75 percent of the initial base amount as has been adjusted annually. A member who retires with at least 20 years of service credit shall receive 100 percent of the initial base amount as has been adjusted annually.

VI. Any subsidy made available pursuant to this plan shall be limited to members who participate in the city's group health insurance program. No benefit or subsidy shall be payable directly to a retired member, nor shall any cash equivalent or other form of subsidy be payable for purposes outside of group health coverage provided by the city to its retirees. Any member who has retired before the effective date of this section shall have the option of re-enrollment in the medical or health plan sponsored by the city and of receiving benefits under this section at such re-enrollment date, provided that such retired member shall apply to the city within 90 days of the effective date of this section. Any member who terminated employment before the effective date of this section and later retires and becomes eligible to receive benefits under this section shall have the option of re-enrolling in the medical or health plan sponsored by the city and of receiving benefits at such re-enrollment date, provided that such member shall apply to the city within 90 days of the member's retirement. Such re-enrollment rights to participate in the medical or health plan sponsored by the city shall be available for all members when they retire. Upon receipt of any enrollment application, the city shall enroll such retiree in the city's plan in the same manner and subject to the same conditions as enrollment of a new employee but without any benefit-waiting period which may be applicable to new employees. The 401(h) subtrust, the city and the city's group health plan shall not be liable for any claims incurred prior to the date of enrollment. The retirement system shall notify all retirees of their right to re-enroll in the city's health plan and to receive benefits at their re-enrollment date under this section. Any member who is eligible to receive a subsidy under the provisions of this section, but who does not need and who declines such benefits because they would be duplicative of coverage under any employer-sponsored plan, shall nevertheless continue to be eligible and, upon ceasing to be eligible for the other coverage, shall be permitted to re-enroll in the medical or health plan sponsored by the city without any waiting period and receive the benefits allowable under this section at such re-enrollment date.

VII. All contributions made by the members and by the city to provide medical benefits under this section shall be maintained in a separate account and all such funds shall not be used for or diverted to any purpose other than to provide medical benefits. Similarly, none of the funds accumulated to provide the retirement benefits set forth in chapter 218 may be used or diverted to provide medical benefits through the 401(h) subtrust. The funds, if any, providing medical benefits through the 401(h) subtrust shall be invested pursuant to the provisions of section 218:6. At all times, the aggregate contributions to provide medical benefits through the 401(h) subtrust must not exceed the subordination limits set forth in Internal Revenue Code Section 401(h) and any applicable Treasury regulations. Notwithstanding the foregoing, in the event of the termination of the 401(h)

subtrust, upon satisfaction of all liabilities to provide medical benefits, any amount remaining in the subtrust shall be returned to the city.

2 Referendum. At the election to be held in the city of Manchester in September or November, 2005, the city clerk then in office shall cause to be included on the ballot the following statement and question: "A contributory retirement plan for city employees was adopted by the voters of Manchester at the November 1973 election. The plan became effective in January 1974, and now, benefit improvements are requested. Are you in favor of the passage of an act of the General Court of 2005, amending the city of Manchester employees contributory retirement system to add a Section 401(h) subtrust for the payment of a health subsidy to retirees?" Beneath this statement and question shall be printed the word "Yes" and the word "No" with a square immediately opposite such word in which the voter may indicate his or her choice. If a majority of the voters present and voting on the question shall signify their approval thereof, this act shall be declared adopted effective 90 days after the date of the election, except as otherwise provided within the act. The city clerk shall, within 10 days after said election, certify to the secretary of state the result of the vote on the question.

3 Effective Date. Section 2 of this act, relative to the referendum, shall take effect upon its passage. If the provisions of section 1 of this act shall be adopted as provided in section 2, said provisions shall be declared adopted and shall become effective 90 days after the date of the election.